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ABSTRACT

This paper examines the nature of complex organizations and describes a new conceptual framework for considering organizational effectiveness. Organizations are viewed as open systems with distinct but interdependent subsystems that must be more or less coordinated to ensure organizational survival and growth. Organizations are also seen as political areas consisting of internal and external constitutencies that negotiate a complex set of constraints, goals, and referents, which are the major determinants of organizational effectiveness. The paper discusses the role of internal and external elements that affect organizational effectiveness and the role of constituencies in establishing constraints, goals, and referents. It also considers the relationship between effectiveness and efficiency, the time frame for evaluating effectiveness, and the possibility of reconciling different research traditions for studying organizational effectiveness. (Author/JG)

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A Framework of Organizational Effectiveness

by

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ABSTRACT

This paper elaborates on the nature of complex organizations and the concept of organizational effectiveness. Organizations are viewed as open systems with distinct subsystems such as input, transformation and output. Organizations are also discussed as a political area consisting of internal and external constituencies that negociate a complex set of constraints, goals and referents which comprise the major elements of organizational effectiveness. The paper discusses the role of internal and external elements which affect the effectiveness and the role of constituencies in establishing the constraints, goals and referents. It also considers the relationship between effectiveness and efficiency, time frame for evaluating effectiveness and the possibility of reconciling different research traditions for studying organizational effectiveness.

A Framework of Organizational Effectiveness

This paper describes the major ingredients of a new conceptual framework of organizational effectiveness. The framework is intended to bring more order into the recent thinking on this subject matter and to stimulate new lines of research. The various perspectives in the literature need to be integrated and their research strategies reconciled.

A new framework should not only deal with the definition and measurement of organizational effectiveness. It should also indicate theoretical avenues for explaining why organizations differ in effectiveness and identify a particular model of organizations. In global terms the present framework consists therefore of three components: (1) there is a discussion of the nature of complex organizations that fits the concern for effectiveness; (2) this is followed by a description of the internal and external factors which define and explain effectiveness; and (3) the elements which comprise the construct of organizational effectiveness. This paper shall sequentially discuss these three components.

Organizations--a definition

The recent literature on organizational effectiveness is rather diverse in its prevailing definitions of effectiveness. The research and debate is rather non-cumulative. This state of affairs may be partly attributed to the diversity of perspectives of complex organizations. Sometimes the definitions of effectiveness imply different views of organizations; sometimes this view is made explicit (e.g. Seashore and Yuchtman, 1967; Price, 1971). These various views are often conveniently classified as belonging to the systems approach or the goal approach. Briefly stated the systems approach views effectiveness as the degree to which the organization can preserve

integration among its parts. The goal approach views effectiveness as the degree to which the organization attains ideal end states (cf. Price, 1971; Simon, 1964). These two approaches often convey different views about organizations. For example, the systems approach emphasizes the functional complementarity of the parts of the organization and stresses the need for integration and maintenance. It represents a system theoretical view of organizations. In contrast, the goal approach reflects a more political or economic view of organizations. It is primarily concerned with organizations as rational devices which enable the owners or decision makers to accomplish certain objectives. While the first approach treats effectiveness in reference to undue strain on the system, the latter treats effectiveness in reference to the interest groups' preferences. These views of organizations are clearly distinguishable when a comparison is made between Katz and Kahn (1966) and Cyert and March (1965) or March and Simon (1958).

In the present framework these two views are considered jointly. That is, organizations are seen as open systems which have exchange relationships with their environment. The subsystems (or subunits) render a contribution to the whole, show some degree of interdependence and have to be more or less coordinated to ensure survival and growth. Organizations are also seen as comprising internal and external interest groups or constituencies which make claims on the organizations. A constituency is an identifyable entity which pursues its distinct interests. In the present paper the notion of system and constituency form the most essential elements of the definition of organizations.

Internal Factors which define and explain effectiveness

The organization as differentiated system can be treated as comprising

input, transformation and output subsystems. These subsystems can find their parallel in actual subunits but many organizations are either more differentiated or less differentiated. Each of the subsystems or subunits has to deal with external and internal contingencies. Viewing organizations as comprising subsystems has two advantages. In the first place it enlarges the scope of the concept of effectiveness. That is, it avoids the exclusive focus on output parameters such as productivity, patient mortality or students' aptitude. By differentiating organizational activities into three or more subsystems it is possible to generate estimates of organizational effectiveness that pertain to each of them thus enlarging the scope of effectiveness. Secondly, this view forces one to consider some of the factors which account for variations in organizational effectiveness. Effectiveness is likely to be a function of the degree to which each subunit copes with the functions it has been allocated. Both this coping as well as the coalignment of the subsystems in conjunction with this coping are crucial for the organizational effectiveness (e.g. Landsberger, 1961; Lawrence and Lorsch, 1967). This line of thinking has been made explicit in the strategic contingencies' theory which the senior author co-authored (Hickson et al., 1971). This theory was developed to account for subunits' power. This power was hypothesized to be a function of a subunit's control of contingencies for other subunits, this control being yielded by three factors, coping with uncertainty, centrality and non-substitutability. The theory may also prove useful in delineating the internal determinants of effectiveness. The different subunits individually contribute to the organization's effectiveness but so does the interplay between them. Also, different subunits are differentially critical for organizational effectiveness. From a system

theoretical point of view the subunits can probably be examined in terms of their importance in affecting effectiveness.

However, the above mentioned structural contingency theory also reveals the other "face" of complex organizations. Subunits are potential constituencies which pursue their own interests. Even though their implied complementarity inhibits intense conflicts they may be too prone to suboptimize (March and Simon, 1958; Cyert and March, 1965)--even at the cost of other subunits or the total organizations. This possibility is explicitly recognized by Hickson et al. (1971) when they warn against the facile inference that the power differences between subunits reflect their relative contribution to the well being of organization.

In the present framework subunits are referred to as horizontal constituencies as distinct from vertical constituencies such employees, management and owners or stockholders. It is more difficult to identify the strategic interdependence among such constituencies while (horizontal) subunits have rather clear boundaries and make unique contributions to the organization. The vertical differentiation may be only partly visible. Nevertheless, in the case of industrial or academic conflicts it is often obvious who comprise the constituencies and the interests they stand for.

This framework borrows Thompson's (1967) notion of "dominant coalition". This coalition comprises a direct and indirect representation of horizontal and vertical constituencies, with different and possibly competing expectations. The consensus among its members can be employed as a vehicle for obtaining data on organizational effectiveness. Somehow, their preferences and expectancies are aggregated, weighted and shared by all the members of the dominant coalition. By invoking the concept of dominant coalition it is possible to preserve the notion of organizations as rational decision making

entities. Also, it makes explicit that the present concern is organizational effectiveness and not effectiveness of lower or higher levels of aggregation (e.g. employee versus industry level or mental patient versus regional health care level).

Organizational environment

In addition to the internal constituencies there are also external constituencies such as suppliers, customers, regulatory agencies, unions and voluntary associations. Organizations depend of these actors for both resources and information exchanges; they play a dual role in tangible external determinants of effectiveness as well as external constituencies. Actors in the environment are determinants of effectiveness when they have some control over the organization's input acquisition or output disposal. They are constituencies which they contribute to the decision making of the dominant coalition and define criteria. of effectiveness.

The earlier mentioned strategic contingencies' theory can be used to describe the relationship between a focal organization and actors in its environment. Figure 1 provides a simplified illustration of such a set of dyadic relationships. The focal organization, X_f, has exchanges with suppliers, clients, and "third parties" such as regulatory agencies. Furthermore, the focal organization may be a monopolist, an oligopolist, or it may face a large number of competitors. Thus, in Figure 1, X_i may be zero, a few, or many. Organizations belonging to an industry or market are represented in Figure 1 by the symbols X, S, B, T, or both. Figure 1 gives a representation of the environment from the perspective of the focal organization. Naturally, one can also take a bird's eye view and treat these organizations as a collectivity or a supra-organizational system. Such

-Figure 1 about here-

approaches are beyond the scope of this paper.

Actors are to be considered relevant as "determinants" to the extent that their exchanges with the focal organization are nonsubstitutable, critical, and have a certain degree of institutionalization. These aspects indicate the likely influence of suppliers, buyers, or third parties on the focal organization's activities and hence its effectiveness. This influence should covary highly with awareness of the relationship between the focal organization and external actors.

Some actors serve as both a determinant and a constituency with respect to the focal organization. We assume there is a strong correlation between the potential influence on a focal organization's effectiveness and the ability (as a determinant) to contribute to the setting of constraints and the definition of referents. That is, an actor has to be a determinant in order to be an external constituency. While some organizations have both the ability to influence the focal organization and the incentive to exploit it, other organizations refrain from their potential role of a constituency. Organizations which refrain from active involvement in the dominant coalition of another organization may do so because of fear of legal reprisals (e.g., antitrust) or simply because they operate with constraints that limit the scope of their organizational activities. In contrast, there are organizations which have little immediate impact on another organization's input, transformation, or output disposal process but do serve in a constituency role. For example, many black community organizations have introduced constraints into firms' hiring practices. These "constituencies" have either worked through other constituencies (e.g., government regulatory

agencies) of the focal organization or have directly confronted the focal organization. This type of constituency differs from the modal case in that it is not involved in a dyadic relationship with the focal organization over exchanges in inputs or outcome disposal. Its major orientation is to influence the focal organization in adopting a new standard for evaluating effectiveness. This distinction among organizations which serve as both determinants and constituencies, only determinants, or only constituencies is intriguing and needs further exploration.

Summarizing, this framework holds that organizations and their environments constitute important antecedents of effectiveness. They also comprise many constituencies which have to be identified in order to arrive at a proper assessment of organizational effectiveness.

Organizational Effectiveness - a definition

The effectiveness of an organization cannot only vary depending on which constituency's perspective one takes. Effectiveness implies some yardstick and some base line for appropriately assessing the organization. In this framework the effectiveness concept includes the notion of goal, constraint and referent. Organizations are effective if constraints can be satisfied and goals are approximated or exceeded according to one or more referents.

Constraints are minimum conditions which must be satisfied for an organization to be considered effective. Goals represent ideal end states. Both constraints and goals can be used for evaluating effectiveness. A major distinction between them is that goals may or may not approximate a referent whereas constraints must be satisfied as a necessary condition of organizational effectiveness. Simon (1964) has further suggested that those aspects of organizational behavior which are more central to the organization's

dominant coalition are more likely to appear as goals rather than as constraints.

Referents are the standards against which constraints and goals are evaluated. That is, the referents embedded in the constraints and outcomes specify a priori the dominant coalition's standards of effectiveness. The actual results when compared with these referents provide a measure of organizational effectiveness.

Referents can be internal or external to the organization. Internal referents are standards unique to the given organization while external referents refer to standards based on information from other organizations. Referents can also be categorized in terms of whether they are static or dynamic. A static referent refers to a particular point in time; the dynamic referent concerns rate of change over time. For example, reducing a company's absenteeism rate by 2% over the last five years represents a dynamic internal referent. Comparing the cost of treating mental patients in 1975 across a large number of mental hospitals represents a static, external referent.

-Table 1 about here-

Table 1 presents the three basic elements of the definition of organizational effectiveness. Constraints and goals represent the two objects of evaluation. Referents are the standards available. The cells derived from the table illustrate the different types of combination of referents that can be applied to the constraints and goals.

Evaluating organizational effectiveness is a complex process since multiple constraints and outcomes must be specified. It is highly unlikely

that one can evaluate effectiveness with a single criterion. For each constraint or outcome multiple referents may be assigned. The task in evaluating effectiveness is one of comparing actual results with the referents imbedded in the constraints or relevant outcomes. Evaluating effectiveness is an ex post rather than ex ante task. It can be argued that the actual behaviors or outputs must satisfy or meet the referents for the constraint in question. For outcomes, the behavior or outputs can meet or exceed the referents as an indication of effectiveness. Evaluating effectiveness is also a relative activity. The closer the organization approximates the referent in the goals, the greater the effectiveness. An asymetrical relationship for constraints is postulated. Failure to meet minimum conditions leads to ineffectiveness rather than to degrees of ineffectiveness.

There are several other aspects which make it problematic to treat effectiveness as a unitary concept. For example, there is the problem of effectiveness versus efficiency. Efficiency is the ratio of the units produced or obtained to resources or costs required to produce a product or to render a service. Efficiency measures the amount of resources used relative to outputs in the process of acquiring inputs, transforming inputs into outputs and disposing of them. Thus it is possible to ask not only how many mental patients have been treated by an agency, but also how much it has cost to treat those patients. In nonprofit organizations the notion of efficiency is often ignored although it is an important concept and although it is recognized as such by those who face scarcity of resources. Efficiency, like effectiveness can be assessed statistically and logitudinally but we also need to specify constraints and goals.

A second issue is the determination of time frames for assessing effectiveness. Time periods for assessing the consequences of decision making vary widely. Sometimes the results are known immediately; in other uses the outcomes are not known for several years. Failure to identify the appropriate time period results in misspecification of effectiveness assessment. Such is especially the case when assessing program effectiveness such as Head Start, Organization Development and program changes. Time periods can be identified by using a variant of Jaques' concept of time span (Jaques, 1954). Effectiveness could be evaluated according to the length of time necessary to determine whether a decision or a program accomplished its goals and met the constraints.

It is also important to recognize that goals and constraints do not only pertain to the organization's discharge of end products or services. The earlier discussion on organizations as being comprised of subsystems may prevent such a narrow focus. It may also prevent any other narrow focus such as the so-called systems' resource approach (Yuchtman and Seashore, 1967) in which the emphasis is placed on the ability to acquire resources. Effectiveness is multidimensional and there is no single or ultimate constraint or goal to evaluate the effectiveness. The strategy at this stage of theory development is to examine effectiveness in terms of the multiple foci found among the various subsystems. Thus we can evaluate effectiveness in terms of input acquisition as well as in terms of output disposal. But we should also focus on the transformation subsystem and examine whether the output acquisition or output disposal emphasis does not put undue strain on the transformation system. In view of such a range of foci, Mohr (1973) has proposed a useful distinction between "reflexive"

versus "transitive" organizations. The first type is more oriented towards internal conditons, while the latter is oriented to the impact or mission that it wants to accomplish in the external environment. It is equally important to stress that both economic and non-economic dimensions should be incorporated. It is probably not accidental that sociologists and psychologists have mostly dealt with non-economic aspects of effectiveness (e.g. socialization, human growth, job satisfaction and homeostasis) while economists emphasize such aspects as market share, product innovation, cost of treatment or education and return on investments. While business organizations often emphasize economic dimensions (coinciding with input or output subsystems), people processing organizations emphasize non-economic dimensions (often associated with the transormation subsystems). It is preferable that future effectivenss research includes both types of dimensions.

Since organizations contain multiple constituencies it may be difficult to ascertain the utility of a particular dimension regardless of whether it is economic or non-economic. This problem is further aggrevated when comparative studies of effectiveness are being undertaken. Methodological development in standardizing dimensions across different organizations is crucial. It is even more crucial to develop joint spaces in which economic and non-economic dimensions are represented multi-dimensionally in conjunction with the various constituencies. The development of such joint spaces represents one of the greatest challenges of future effectiveness research.

Such methodological research has to go hand in hand with theoretical developments. This includes the role which constituencies play in establishing goals, constraints, and referents. Each of them is oriented to maximize

its inducements from the organization and to minimize its contributions. As indicated before the constituencies may be external or internal to the organization. The establishment of constraints, goals and referents follows from the bargaining process between the constituencies or their representatives in the dominant coalition. The referents adopted by the dominant coalition provides an important guide to behavior. The bargaining process between constituencies has two main effects. First, it focuses attention on a specific set of constraints, goals and referents. That is, given the limited information processing capabilities of members of the dominant coalition, some mechanism must exist to select from a large set of potential constraints, goals and referents. The bargaining process serves as such a mchanism. The second effect of the bargaining process is that it requires the dominant coalition to assess alternative combinations of constraints, goals, and referents as they bear on the organizational ratios of inducements and contributions. It will adopt referents which put the organization's inducement-contributions balance in a favorable light. Theoretical development with respect to this bargaining process will help advance our understanding of why and how organizations employ a certain set of constraints, goals and referents for evaluating effectiveness. It seems likely that those subunits which are critical and which cope best with their task requirements do not only contribute most to the organization's returns and the preserving of its viability. It is also likely that such subunits carry greater weight in the dominant coalition and therefore have a greater impact on the choice of constraints, goals and referents. Similarly external constituencies carry a greater weight to the extent that an organization is dependent on them. The budgeting process is especially useful in uncovering

the major stages of the bargaining process while an examination of the antecedents of effectiveness may help clarify why some constituencies are more important than are others.

Summarizing the present view, then, is of an organization made up of constituencies who influence the constraints, goals and referents for evaluating effectiveness. This evaluation proceeds through a cycle of organizational decision making. In some cases, especially in the context of output disposal indicators, it may be a very formal accounting procedure. In other cases the cycle might occur in a very loosely structured fashion.

Conclusion

The usefulness of the present framework may be evaluated by developing alternative research strategies. Similarly, it may facilitate the reconciliation of many previous studies in organizational behavior--both those which attempted to measure effectiveness and those which tried to delinate its antecedents. Some of the major traditions in organizational behavior can be viewed as aiming at, explaining, or prescribing conditions which enhance effectiveness--for example systems theory (Katz and Kahn, 1966), expectancy theory (Vroom, 1964), structural contingency theory (Thompson, 1967; Pennings, 1975), and personality-organization theory (Argyris, 1973; Likert, 1966). Some of these theories have gained major status among researchers but there is little cross fertilization. In fact, there is frequent controversy and antagonism in which adversaries accuse each other of wishful thinking, witness, for example, the Perrow (1972)-Argyris (1973) debate. The present framework can easily accommodate these positions thereby enhancing their contribution to the understanding of organizational effectiveness. It has also the potential to point to complementarity among various

approaches.

The Perrow-Argyris debate provides an interesting illustration of how the present framework may exploit complementarity among theories rather than disjointedness. The structural contingency theory or technological imperative as embodied by the writings of Perrow attributes differences in organizational structure to variations in technological and environmental conditions. Organizations have to be tuned in structurally to these conditions. For example, if there is uncertainty in technology or environment, organizations have to be flexible, decentralized, informal, and participative, while the opposite is true whenever the technology or environment is certain, routine, and predictable. Effectiveness, at least implicitly, is a function of the goodness of fit between organizational structure and technology and environment (Perrow, 1972; Mohr, 1971; Pennings, 1975).

There are also viewpoints that ignore technology and environment or which take these factors as a given. The classical scientific management authors are a well known case in point. Recent contributions by Likert (1966) and Argyris (1973), however, have also aimed at identifying the form of organization which is most conducive to organizational effectiveness. Likert (1966) argues that organizations with system IV have the best performance record. This structure is characterized by participative group management, communication flows upwards as well as downwards and with peers and close psychological relationships. Argyris (1973) who takes very strong issue with authors such as Perrow (1972) is even more explicit in meshing psychological predispositions and organizational requisites to promote effectiveness. Personality characteristics, group dynamics, and interpersonal relationships cannot be ignored. There are also psychological theories, such as expectancy

theory, which deal exclusively with individual factors of effectiveness. Expectancy theory focuses on the motivational antecedents of performance; it is a more elaborate version of economic utility theory (Vroom, 1964). The essential ingredients of this theory imply that individuals who are capable of doing so, will work harder to increase their performance levels if this promotes the rewards they derive from employment. Such a theory would assert that more effective organizations are those which have employees who believe that effort leads to performance and performance to rewards with high utility. Although more individual than organizational, these theories are compatible with the present framework and delineate some of the pertinent psychological determinants of organizational effectiveness, while the more sociologically oriented theories are instrumental in identifying organizational, technological, and environmental determinants.

Rather than choosing sides, the proposed framework allows for inclusion of different approaches or theories by stressing their complementarity. For example, Argyris' views have relevance for internal, organizational determinants of effectiveness. They are also helpful in isolating problem-solving areas in which competing constituencies can establish satisfactory relationships and common outcomes. Similarly, Likert's "linking pin" concept integrates both horizontal and vertical constituencies and provides a device for improving effectiveness and efficiency. Accomplishments of expectancy research suggest that organizations should adopt a reward system that is congruent with the preferences of the members of different constituencies. At the same time the framework can incorporate sociological approaches such as structural contingency theory by its implicit recognition of environmental and technological conditions. It also fits well with the recent trends in

organizational sociology dealing with interorganizational relations external constituencies and organizational effectiveness (e.g. Pfeffer, 1972). Hopefully the framework will stimulate future research to identify the relative importance of determinants of organizational effectiveness. Hopefully, the present framework has also suggested avenues of research for uncovering the constraints, goals and referents that organizations adopt through some political process. It is not only important to determine how organizations maximize their economic and non-economic returns, but also how these returns are evaluated and how they are being shared by the various constituencies.

TABLE 1

A CLASSIFICATION OF DIFFERENT TYPES OF REFERENTS BY CONSTRAINTS AND OUTCOMES

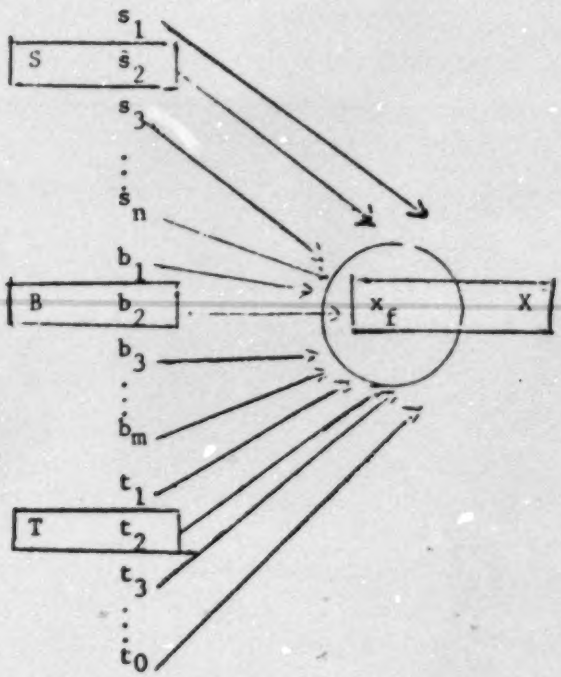
	REFERENTS (I.E. STANDARDS OF COMPARISON)			
	STATIC		DYNAMIC	
	INTERNAL	EXTERNAL	INTERNAL	EXTERNAL
CONSTRAINTS (I.E. MINIMUM CONDITIONS TO BE SATISFIED)				
GOALS (I.E. IDEAL OUTCOMES)				

TABLE 2
COMPARISON OF THE NEW FRAMEWORK
WITH ALTERNATIVE FRAMEWORKS

	NEW MODEL (1976)	ARGYRIS (1964)	MOHR (1973)	PRICE (1971)	KATZ KAHN (1966)	SEASHORE YUCHTMAN (1967)
A. CONCEPT OF EFFECTIVENESS						
DEFINITION	√	√	√	√	√	√
DIMENSIONS	√	√	√	0	√	√
CONSTRAINTS--REFERENTS	√	0	√	0	√	0
EFFECTIVENESS VS. EFFICIENCY	√	0	√	√	√	√
B. CONCEPT OF ORGANIZATION						
SYSTEMIC DETERMINANTS	√	0	0	√	√	√
CONSTITUENCIES	√	0	0	√	0	0
C. CONCEPT OF ENVIRONMENT						
DETERMINANTS	√	0	0	√	0	0
CONSTITUENCIES	√	0	0	√	0	0
D. LEVEL OF AGGREGATION						
INDIVIDUAL	0	0	0	0	0	0
SUBORGANIZATION--ORGANIZATION	√	√	√	0	√	√
SOCIETAL	0	0	√	0	0	0
E. TIME DIMENSIONS						
STATIC VS. DYNAMIC	√	√	0	0	√	√
TIME PERIODS FOR ASSESSING EFFECTIVENESS	√	0	0	0	0	0

√ = ISSUE IS EXPLORED
0 = ISSUE IS NOT EXPLORED OR NOT EXPLORED IN DETAIL

Figure 1 Schematic description of organizational environment*



* Meaning of symbols

x_f = focal organization

$X = \{x_1, x_2, x_3 \ldots x_p\}$ competitors of focal organization

s_i = supplier

$S = \{s_{21}, s_{22}, s_{23} \ldots s_{2q}\}$ competitors of supplier 2 (secondary environment)

b_i = buyer

$B = \{b_{21}, b_{22}, b_{23} \ldots b_{2r}\}$ competitors of buyer 2 (secondary environment)

t_i = third party, e. g., regulatory agency, pressure group, government, etc.

$t_{21} = \{t_{21}, t_{22} \ldots t_{2s}\}$ Third parties associated with t_2, but not interacting with x_f (secondary environment).

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